



Mid-Biennial Fiscal Update



City Council Study Session

October 28, 2003



Mid-Biennial Fiscal Update

- Economic Overview
- Financial Performance
 - ✓ General Fund
 - ✓ Utilities
 - ✓ General CIP

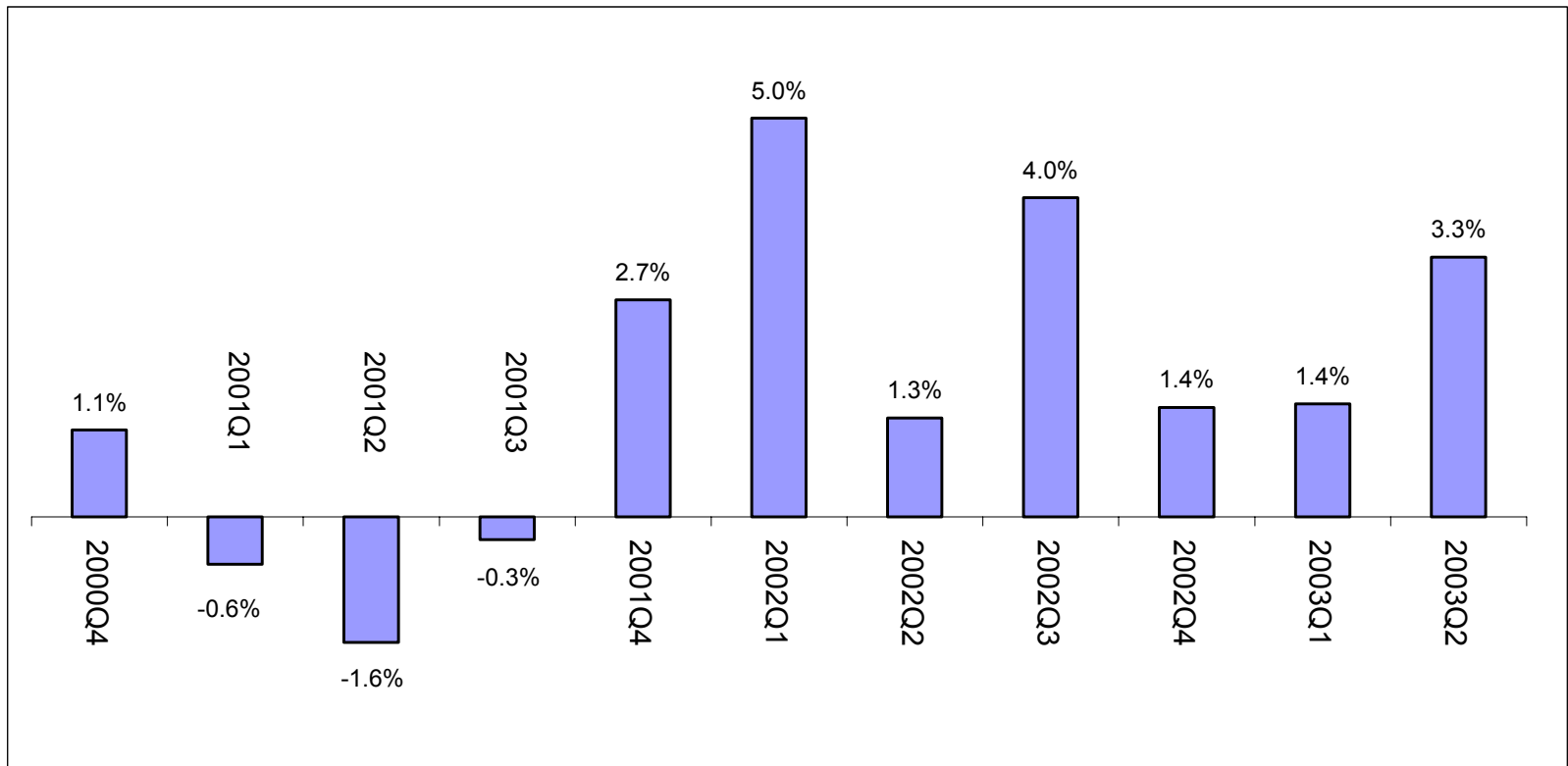


Economic Overview

- National economy improving
 - ✓ GDP has grown consistently since 4Q 2001
- However, lingering concerns remain
 - ✓ Unemployment still high
 - ✓ Business investment continues to be low
 - ✓ Consumers apprehensive

National Gross Domestic Product

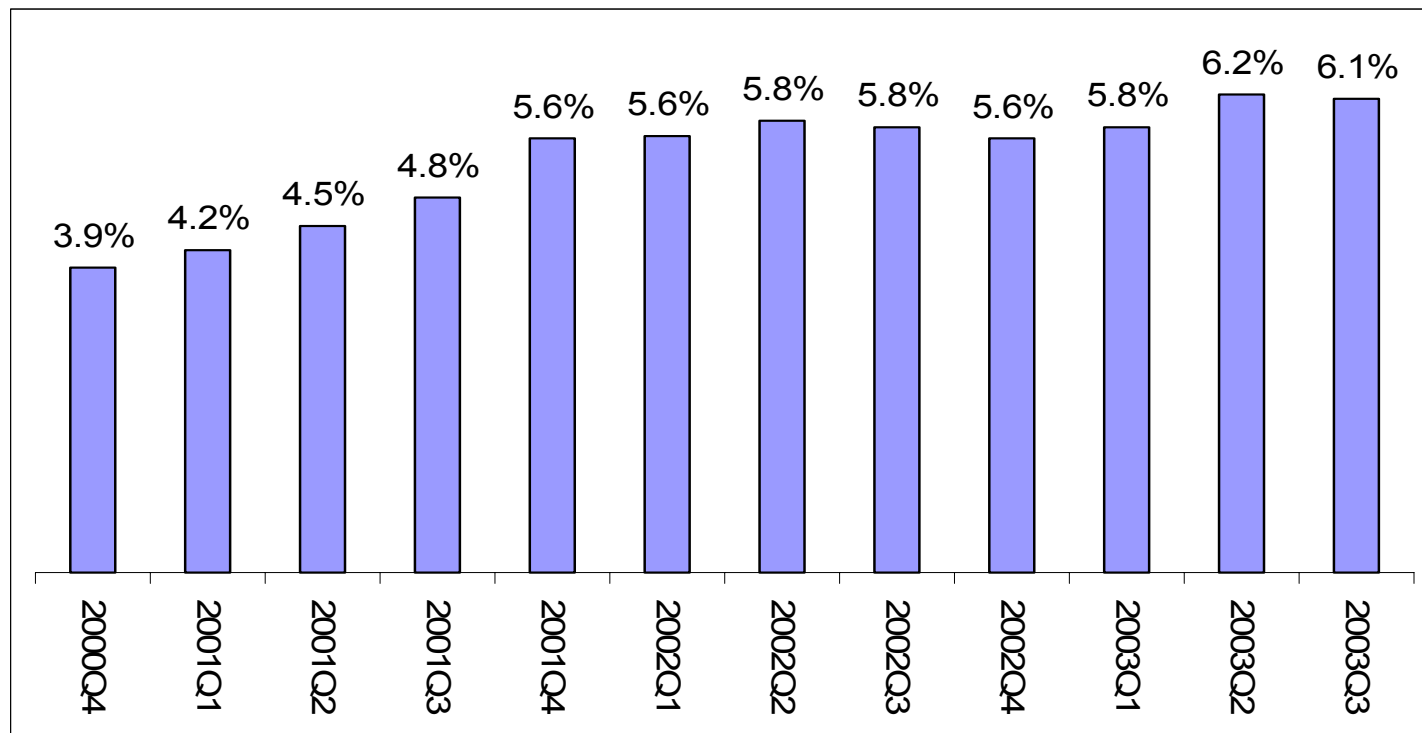
- Grew consistently for past 7 quarters



Source: United States Bureau of Economic Analysis

National Unemployment Rate

- Unemployment has remained at high levels



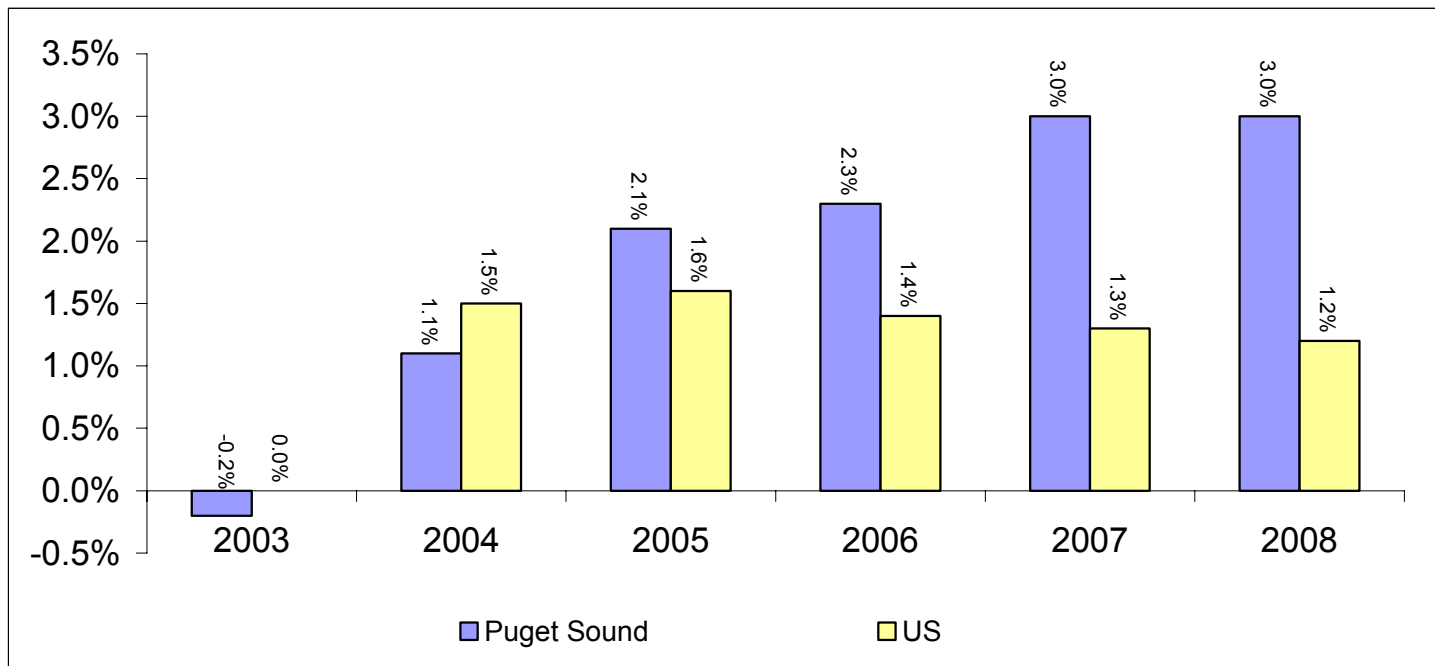


Economic Overview Puget Sound

- Short term: Will lag behind national trends
 - ✓ Hard-hit: Aerospace & High Tech
 - ✓ Unemployment: Among highest in the U.S.
- Long-term: Growth expected to outpace the nation starting 2005

Forecasted Employment Growth Rate

- Puget Sound forecasted to outpace national trends starting in 2005



Source: Puget Sound Forecaster, Sept 2003



Economic Overview

- Redmond's economy has fared relatively well compared to US and Puget Sound
 - ✓ Less dependence on aerospace
 - ✓ Addition of several new retailers (Fred Meyer, Home Depot, Bon Macy's, Staples)
 - ✓ Microsoft continues to hire
 - ✓ Lower commercial vacancy rate



Economic Overview

Conclusion

- Economists predict that the worst may be over
 - ✓ Near term: Tenuous
 - ✓ Long term: Positive



General Fund Overview

- General Fund is operating within its revenue limits despite economic downturn
- Cost containment measures put in place early to ensure the City lives within its means



General Fund Revenues

- Operating revenues are likely to be 2% below budget
- In general revenues are within expectations except for:
 - ✓ Economically sensitive revenue sources
(Sales Taxes, Development Revenues, Interest)
 - ✓ Utility taxes
- GF includes a \$3.3 million contingency as a hedge against further economic weakness



Sales Taxes

- Largest source of revenue for General Fund
- Sales tax collections begun to improve
 - ✓ Addition of new retailers
- Expected to be slightly below budget in 2003
 - ✓ Continued weakness in construction



Sales Tax Growth Rates

- Selected Cities

Sales Tax Growth Rates - Jan-July comparison 2003 vs. 2002

Renton	+	5.7%
Tukwila	+	3.4%
Kirkland	+	2.7%
Redmond	+	2.2%
Bothell	-	0.9%
Unincorporated K.C.	-	1.0%
Issaquah	-	1.4%
Seattle	-	1.5%
Bellevue	-	4.0%

Source: Wa State Dept of Revenue, Excludes one-time payments



Development Revenues

- Development slowdown consistent with expectations
 - ✓ Most revenues are in line with budget
 - ✓ Exceptions:
 - Residential building permits – all time high
 - Plan check/engineering fees – down considerably



Development Revenues

- Need to be cautious, as gauge for future pipeline activity continues to weaken
- Will monitor revenues and expenditures closely and make adjustments as necessary
- Reserve available (\$913K) to fulfill development review obligations in the event of a prolonged downturn



General Fund Expenditures

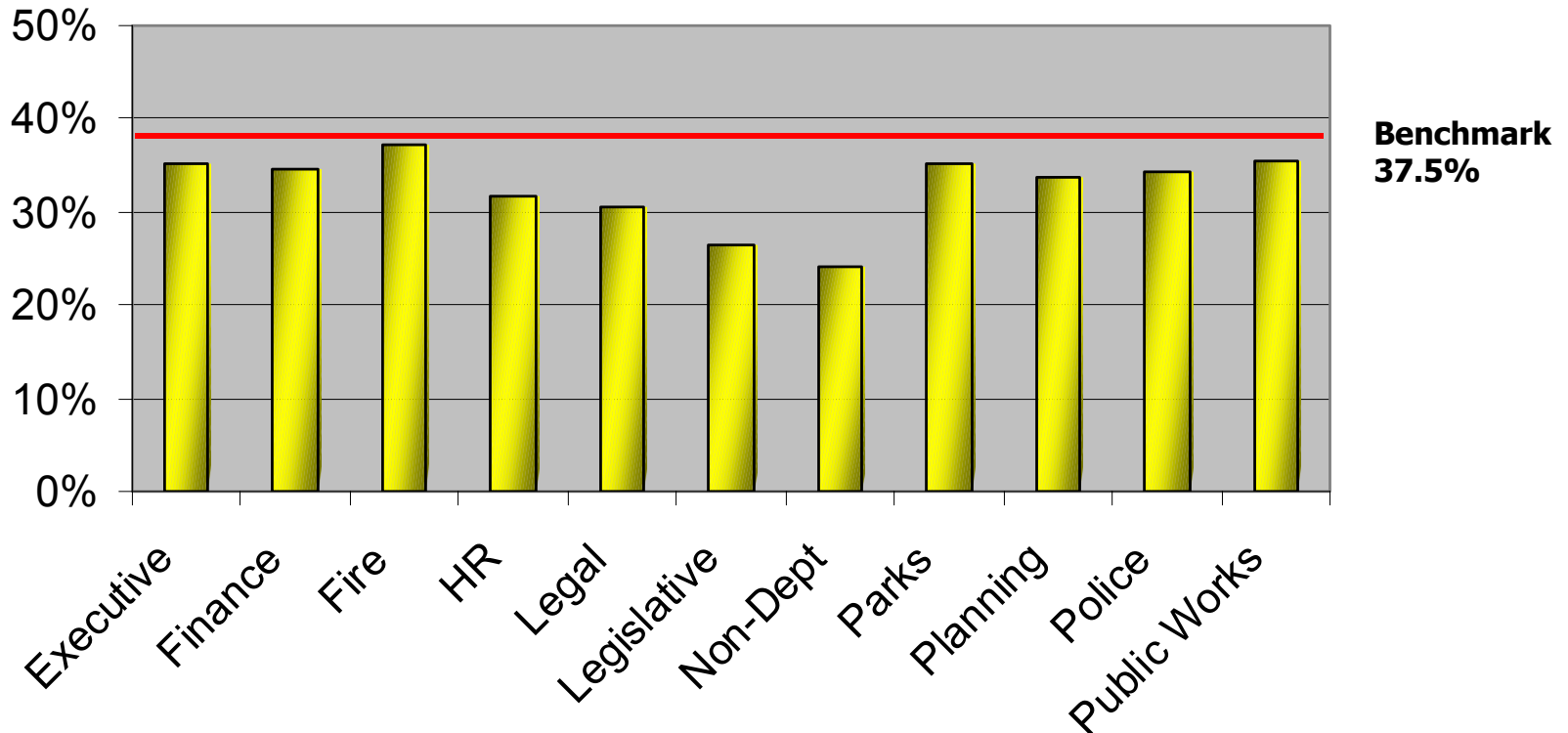
- Departmental expenditures 2% to 6% under budget, offsetting the decline in revenues

- City continues to benefit from cost containment measures
 - Scrutinizing use of overtime
 - Filling vacancies only when necessary
 - Negotiating and implementing premium cost sharing for health benefits

Departmental Expenditures

- Most departments are between 2% – 6% below budget

Expenses as % of biennial budget - As of Sep 30, 2003





Potential Risk Factors For 2003

- The economy
 - ✓ Nearly 50% of the City's general fund revenues are highly sensitive to changes in the economy
- Labor settlements for Police and Fire Unions
- Overtime
- Rising medical costs
 - ✓ Projected to grow 14% - 17% annually



Conclusion

- Despite the economic slowdown, the City is operating within its revenue limits
- Cost containment measures successful
 - ✓ Will remain in effect until the recovery takes hold
- City has \$3.3 million contingency as a hedge against further economic weakness
- No major adjustments are recommended to the General Fund budget



City Utilities & General CIP



Utilities

- Financial operations consistent with budget
- Operating results continues to improve for WWW utility
 - ✓ Operating income positive
 - ✓ Water consumption increased 10%
 - ✓ \$2.9M in water/sewer bonds being called, thereby retiring all debt for water/wastewater utility
- Stormwater Management Utility continues to operate within its five year rate plan
 - ✓ SWM CIP surcharge sunsets end of 2004
- Rate studies in 2004, coinciding with 2005-06 budget



General CIP Overview

- Execution of projects consistent with expectations and prior year levels
- Largest expenditures in Transportation and Parks functional areas



Status of Major Transportation CIP Projects

■ Construction

- ✓ 140th Ave NE Improv.
- ✓ 166th Ave NE Improv.
- ✓ BROTS projects (Redmond Way/132nd & NE 40th/148th)
- ✓ WLS – NE 51st to Marymoor
- ✓ WLS rehab – City limits to Bel Red Road
- ✓ Willows Road (NE 116th to NE 124th)

■ Design

- ✓ Bear Creek Pkway west end extension
- ✓ NE 116th Corridor
- ✓ Sammamish River Pedestrian Bridge

■ Other

- ✓ Transportation Master Plan including significant work on Downtown Master Plan
- ✓ BROTS North-South Corridor Study



Status of Major Parks CIP Projects

■ Construction

- ✓ Perrigo Park
- ✓ Grasslawn Park Phase 2
- ✓ ORSCC Improvements

■ Design

- ✓ MOC Parks Covered Storage
- ✓ Evans Creek Trail and Greenway – planning permits issued

■ Acquisition

- ✓ Burlington Northern Santa Fe (in negotiations)
- ✓ King County Shop Site
- ✓ SE Redmond Neighborhood Park

■ Other

- ✓ Parks Recreation and Open Space (PRO) Plan
- ✓ Park Improvement Plan (PIP)



Conclusion

- City resources being prudently managed in accordance with budget and CIP
- Long term economic outlook is positive
 - ✓ In short term, there are still potential risk factors for 2003-2004 (e.g. economy, labor contracts, overtime, medical costs)
 - ✓ City has set aside resources as a cushion against any further decline in the economy
- At this time, no major changes are recommended to the 2003-2004 budget